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UNITED STATES BANKRUPTCY COURT  
DISTRICT OF NEW JERSEY

IN RE:

MARCAL PAPER MILLS, INC.,

Debtor.

Chapter 11

Case No.:  
06-21886 (MS)

**SETTLEMENT AGREEMENT**

WHEREAS, on or about November 30, 2006, Marcal Paper Mills, Inc. (the "Debtor") filed a petition for reorganization under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101, et seq., as amended (the "Bankruptcy Code");

WHEREAS, the Bankruptcy Court entered an Order establishing May 15, 2007 as the date by which persons must file a proof of claim against the Debtor and establishing June 14, 2007 as the deadline for filing a proof of claim by a governmental unit (the "Bar Date Order");

WHEREAS, on or about June 14, 2007, the United States, on behalf of the United States Environmental Protection Agency (the "EPA"), the United States Department of the Interior ("DOI"), and the National Oceanic and Atmospheric Administration of the United States

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Department of Commerce ("NOAA"), filed a Proof of Claim against the Debtor. (Debtor, together with any successor, including the reorganized Debtor, shall be referred to hereafter as "Marcal");

WHEREAS, the proof of claim asserts a claim, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. § 9601 et seq., for at least \$946,000,000 for unreimbursed environmental response costs incurred by the United States at the Diamond Alkali Superfund Site (the "United States' Claim");

WHEREAS, the Diamond Alkali Superfund Site ("Site") includes: a seventeen mile stretch of the Passaic River and its tributaries from the Dundee Dam to Newark Bay known as the Lower Passaic River Study Area ("LPRSA"); the former pesticides manufacturing facility at 80 Lister Avenue, Newark, New Jersey, and the surrounding property at 120 Lister Avenue; the Newark Bay Study Area, which includes Newark Bay and portions of the Hackensack River, the Arthur Kill, the Kill Van Kull; the areal extent of contamination; and any subsequent expansion of the Site;

WHEREAS, the Proof of Claim was asserted as a general unsecured claim;

WHEREAS, Marcal represents that New Jersey Department of Environmental Protection has received notice of the commencement of the Debtor's bankruptcy case and the Bar Date Order and has not filed a claim related to the Site; and

WHEREAS, the parties hereto, without admission of liability by any party, desire to settle, compromise and resolve the United States' Claim;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for

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other good and valuable consideration receipt of which is hereby acknowledged;

IT IS HEREBY STIPULATED and agreed to by and between the parties hereto, subject to approval by the Bankruptcy Court, as follows:

1. The United States' Claim on behalf of EPA, DOI, and NOAA shall be allowed as an Unsecured Claim in the total amount of \$3,000,000 (as apportioned between EPA, DOI, and NOAA as set forth in paragraphs 2 and 3 below), and paid as an Unsecured Claim without discrimination in accordance with the terms of Marcal's Plan of Reorganization, dated June 25, 2007, or as the same may be amended or revised (the "Plan of Reorganization"), and the United States will be deemed to have withdrawn the United States' Claim for any amount in excess of \$3,000,000.

2. The United States' Allowed Claim on behalf of EPA for costs of response to hazardous substances shall be in the amount of \$2,160,000. Payment on the EPA Claim shall be made by Electronic Funds Transfer ("EFT" or wire transfer) to the U.S. Department of Justice lockbox bank, referencing EPA Site ID No. 02-96 and DOJ Number 90-11-3-07683/5, in accordance with instructions provided by the United States to Marcal after execution of this Settlement Agreement. Any EFTs received at the U.S. D.O.J. lockbox bank after 11:00 A.M. (Eastern Time) will be credited on the next business day. Distributions received by the United States on behalf of EPA will be deposited in a site-specific special account within the EPA Hazardous Substance Superfund to be retained and used to conduct or finance response actions at or in connection with the Site, or to be transferred by EPA to the EPA Hazardous Substances Superfund. Only the amount of cash received by EPA from Marcal under this Settlement

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Agreement for EPA's allowed Unsecured Claim, and not the total amount of the allowed claim, shall be credited by EPA to its account for the Site, which credit shall reduce the liability of non-settling potentially responsible parties to EPA for the Site by the amount of the credit.

3. The United States' Allowed Claim on behalf of DOI and NOAA for costs of natural resource damage assessment shall be in the amount of \$840,000. Payment on the DOI and NOAA Claims shall be made by Marcal in accordance with instructions provided by the United States to Marcal after execution of this Settlement Agreement. Only the amount of cash received by DOI and NOAA from Marcal under this Settlement Agreement for their allowed Unsecured Claims, and not the total amount of the allowed claims, shall be credited by DOI and NOAA to their accounts for the Site, which credit shall reduce the liability of non-settling potentially responsible parties to DOI and NOAA for the Site by the amount of the credit.

4. In consideration of the payments or distributions that will be made by Marcal under the terms of this Settlement Agreement, and except as provided in paragraph 5, the United States covenants not to bring a civil action or take administrative action against Marcal pursuant to Sections 106 and 107 of CERCLA relating to the Site. This covenant not to sue is conditioned upon the approval of this Settlement Agreement and complete and satisfactory performance by Marcal of its obligations under this Settlement Agreement. This covenant not to sue extends only to Marcal and does not extend to any other person.

5. The covenant not to sue for the Site set forth in the previous paragraph does not pertain to any matters other than those expressly specified in the previous paragraph. The United States reserves, and this Settlement Agreement is without prejudice to, all rights against Marcal

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with respect to all other matters, and specifically with respect to: claims based on a failure by Marcal to meet a requirement of this Settlement Agreement. With respect to the Site, this Settlement Agreement does not address Marcal's post-Confirmation Date conduct which would give rise to liability under 42 U.S.C. §§ 9606 and 9607(a)(1)-(4) and the United States reserves all rights it may have with respect to such post-Confirmation Date conduct; except, however, that this reservation shall not apply to any damage which arises from or is related to pre-Confirmation Date acts, omissions, or conduct of Marcal, including without limitation any ongoing releases of trace amounts of polychlorinated biphenyls ("PCBs") and chlorodibenzo-p-dioxins and furans ("PCDD/Fs") into the Site where such ongoing releases are consistent with Marcal's recent discharges of trace amounts of these hazardous substances and in compliance with applicable permits.

6. Marcal shall include in the Confirmation Order the following statement regarding the "Discharge of Debtor" section of its Plan of Reorganization, Section 8.4 of the Plan: "With the exception of that which is set forth in the Settlement Agreement of the United States and Marcal Paper Mills of July, 2007, nothing in the Plan of Reorganization discharges, releases, or precludes any claim of the United States that arises on or after the Confirmation Date. With the exception of that which is set forth in the Settlement Agreement of the United States and Marcal Paper Mills of July, 2007, nothing in the Plan of Reorganization releases any entity from its post-Confirmation Date obligations to comply with environmental laws as the owner or operator of property that such entity owns or operates after the Confirmation Date." Nothing in the statement above waives any right by Marcal or the United States to assert any argument regarding

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when a claim arises and therefore whether a claim is barred.

7. The United States' Allowed Claim as set forth in this Settlement Agreement will not be a Disputed Claim as that term is used in Marcal's Plan of Reorganization, including as that term is used in Section 5.3(J) of the Plan.

8. With regard to claims for contribution against Marcal for matters addressed in this Settlement Agreement, Marcal is entitled to such protection from contribution actions or claims as is provided by CERCLA Section 113(f)(2), 42 U.S.C. § 9613(f)(2).

9. Marcal covenants not to sue and agrees not to assert any claims or causes of action against the United States with respect to the Site, including but not limited to: any direct or indirect claim for reimbursement from the Hazardous Substance Superfund, any claims for contribution against the United States, its departments, agencies or instrumentalities, and any claims arising out of response activities at the Site. Nothing in this Settlement Agreement shall be construed to constitute preauthorization of a claim within the meaning of Section 111 of CERCLA, 42 U.S.C. § 9611 or 40 C.F.R. § 300.700(d).

10. Nothing in this Settlement Agreement shall be construed to create any rights in, or grant any cause of action to, any person not a party to this Settlement Agreement.

11. Marcal's entry into this Settlement Agreement will be subject to Bankruptcy Court approval pursuant to Bankruptcy Rule 9019. Marcal agrees to exercise its best efforts to obtain the approval of the Bankruptcy Court. This Settlement Agreement will be lodged with the Bankruptcy Court and submitted for public comment following notice of the Settlement Agreement in the Federal Register. Marcal may seek conditional Bankruptcy Court approval

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under Bankruptcy Rule 9019 as soon as this Settlement Agreement is executed and during the public comment period, in which case such conditional Bankruptcy Court approval shall be subject to the United States' right to withdraw as set forth below. The United States reserves the right to withdraw or withhold its consent if the public comments regarding the Settlement Agreement disclose facts or considerations which indicate that the Settlement Agreement is inappropriate, or improper, or inadequate.

12. If this Settlement Agreement is not authorized and approved by the Bankruptcy Court or the United States exercises its right to withdraw, this Settlement Agreement shall be of no force and effect, whereupon nothing herein shall be deemed an admission of any fact or waiver of any right of either party with respect to the matters contained herein.

13. This Settlement Agreement represents the complete agreement of the parties hereto on the matters referred to herein and supersedes all prior agreements, understandings, promises and representations made by the parties hereto concerning the subject matter hereof. This Settlement Agreement may not be amended, modified or supplemented, in whole or in part, without the prior written consent of the parties hereto and the approval of the Bankruptcy Court.

14. The effective date of this Settlement Agreement shall be the date upon which it is approved by the Bankruptcy Court following the public comment period and following the United States' request for entry of the Agreement.

15. The signatories for the parties each certify that he or she is authorized to enter into the terms and conditions of this Settlement Agreement and to execute and bind legally such Party to this document.

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FOR THE UNITED STATES OF AMERICA

20 July 2007  
Date

RONALD J. TENPAS  
Acting Assistant Attorney General  
Environment and Natural Resources Division  
U.S. Department of Justice

7/26/07  
Date

JEROME W. MACLAUGHLIN  
Trial Attorney  
Environmental Enforcement Section  
U.S. Department of Justice



**SETTLEMENT AGREEMENT OF UNITED STATES AND MARCAL PAPER MILLS**

FOR THE ENVIRONMENTAL PROTECTION AGENCY

DATE 7/25/07

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GEORGE PAVLOU  
Director  
Emergency and Remedial Response Division  
U.S. EPA, Region 2

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FOR THE DEBTOR, MARCAL PAPER MILLS, INC.

7/20/07  
Date

\_\_\_\_\_  
Mr. Nicholas R. Marcalus  
Chairman and Chief Executive Officer  
Marcal Paper Mills, Inc.  
One Market Street  
Elmwood Park, New Jersey 07407-1451  
(201) 796-4000